

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3190-01
Bill No.: HB 1230
Subject: Elderly, Property, Real and Personal, State Tax Commission, Taxation and
Revenue - General, Taxation and Revenue - Property
Type: Original
Date: January 7, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue *	\$0	(\$61,915,000 to \$81,902,000)	(\$63,463,000 to \$83,949,000)
Blind Pension	\$0	(\$310,000 to \$410,000)	(\$317,000 to \$420,000)
Total Estimated Net Effect on <u>All</u> State Funds *	\$0	(\$62,225,000 to \$82,312,000)	(\$63,780,000 to \$84,368,000)

*Does not include possible increased cost to fully fund Foundation Formula

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government *	(Unknown)	(Unknown)	(Unknown)

* Significant offsetting costs and reimbursements.

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

In response to a similar proposal, officials from the **State Tax Commission** assume an increase in the parcel amount paid to the counties. Should the counties be reimbursed at \$7 per parcel instead of the current \$6.20, it would cost the state \$3 million. Additional assumptions are that \$21.1 billion in assessed valuation is represented by owner occupied. Of this amount \$5.1 billion assessed valuation is represented by Senior Citizens. Assuming 8% valuation growth, the increase in assessed valuation for senior citizens equals \$408 million assessed times a \$6 statewide levy reflects potential loss to local political subdivisions at \$24.5 million. Additional assumption is \$16 billion assessed valuation is represented by owner occupants <65 years of age. 8% growth in a 2 year period minus the 5% cola allowed equals 3% potential loss for local political subdivisions. \$16 billion assessed valuation times 3% equals \$480 million assessed times \$6 levy equals potential loss of \$28.8 million.

Oversight notes that this proposal does not mandate an increase in the per-parcel reimbursement to counties and has excluded that cost from the fiscal impact of this proposal.

Oversight estimated possible losses as follows:

An increase in taxes on residential property of 11% per 2-year cycle of reassessment, an inflation rate of 3.5%, 70% of residential property is owner occupied, and 26.9% of residential property owners are over 64.

Total property tax paid in 2000	\$	3,922,378,000
Percent residential	x	.44
Residential Property Tax paid in 2000	\$	1,725,846,000
Projected Tax 2002	\$	1,915,689,000
Projected Increase	\$	189,843,000
Percentage of population 64+	x	.269
Projected Increase for 64+ Occupied	\$	51,068,000
Percentage of owner-occupied	x	.70
Projected Increase for 64+ owner-occupied	\$	35,748,000

ASSUMPTION (continued)

If all senior citizen owner-occupied property is occupied by persons who have lived in the property for five years or more then the total amount would be lost. If all owner-occupied property is occupied by persons who have lived in the property for less than five years then the loss would be 5/11ths of possible loss. Projected losses for subsequent years would increase from 2.5% to 5.5%.

Projected Increase	\$ 189,843,000
Percentage of population under 65	x .731
Projected Increase for Under 65 Occupied	\$ 138,775,000
Percentage of owner-occupied	x .70
Projected Increase for Under 65 owner-occupied	\$ 97,143,000

Assuming the consumer price index rises more than 5% every two years, 5/11ths of the increase would be lost. Projected losses for subsequent years would increase 2.5%.

Projected Losses for FY 2003:

$\$35,748,000 \times 5/11 = \$16,250,000$ to $\$35,748,000$ for 64+
 $\$97,143,000 \times 5/11 = \$44,156,000$ for under 65s.

Total = \$60,406,000 to \$79,904,000

Projected losses for FY 2004:

$\$16,655,000$ to $\$36,642,000$ for 64+
 $\$45,260,000$ for under 65s

Total = \$61,915,000 to \$81,902,000

Projected losses for FY 2005:

$\$17,072,000$ to $\$37,558,000$ for 64+
 $\$46,391,000$ for under 65s

Total = \$63,463,000 to \$83,949,000

ASSUMPTION (continued)

Oversight assumes there would also be losses to the Blind Pension fund of a little more than ½ of 1% of the losses to political subdivisions.

Oversight assumes there would be additional unknown costs to the County Assessor, Clerk, and Collector to administer the proposal.

In response to a similar proposal in the prior session, **Department of Elementary and Secondary Education** officials noted that the proposal would decrease assessed values compared to current law, which would increase the amount needed to fully fund the Foundation Formula. They also noted that 1) “hold harmless” districts would recoup their losses through state payments, 2) state payments required by this proposal are not included in the Formula, thus allowing other districts a “double dip” consisting of reimbursements from the state and increased payments through a fully funded Formula, and 3) the effects of the proposal on the Formula should disappear after three or so years because reducing the guaranteed tax base reduces the inflationary adjustment in the Formula for districts to fund inflationary increases in expenses.

Oversight assumes the Foundation Formula issues, if any, would be addressed through the appropriation process.

In response to a similar proposal, officials from the **Office of the State Auditor** indicated that the proposal would not affect their agency.

In response to a similar proposal, officials from the **Department of Revenue** indicated that the proposal would not affect their agency, administratively.

FISCAL IMPACT - State Government

FY 2003
(6 Mo.)

FY 2004

FY 2005

GENERAL REVENUE

Cost - Reimbursement of Property Tax
 Reductions *

(\$61,915,000 to (\$63,463,000 to
 \$0 \$81,902,000) \$83,949,000)

**NET EFFECT ON GENERAL
 REVENUE ***

(\$61,915,000 to (\$63,463,000 to
\$0 \$81,902,000) \$83,949,000)

***Does not include possible increase in
 cost to fully fund Foundation Formula.**

BLIND PENSION FUND

Loss - Reduced Property Tax Collections

(\$310,000 to (\$317,000 to
 \$0 \$410,000) \$420,000)

**NET EFFECT ON BLIND PENSION
 FUND**

(\$310,000 to (\$317,000 to
\$0 \$410,000) \$420,000)

FISCAL IMPACT - Local Government

FY 2003
(6 Mo.)

FY 2004

FY 2005

Political subdivisions

Income - State Reimbursement

\$61,915,000 to \$63,463,000 to
 \$0 \$81,902,000 \$83,949,000

Loss - Reduced Property Tax Collections

(\$61,915,000 to (\$63,463,000 to
 \$0 \$81,902,000) \$83,949,000)

Cost - Additional administrative cost to
 Assessor, Collector, and Clerk

(Unknown) (Unknown) (Unknown)

**NET EFFECT ON POLITICAL
 SUBDIVISIONS ***

(Unknown) (Unknown) (Unknown)

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

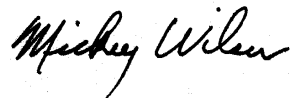
DESCRIPTION

This proposal would create a homestead exemption from property tax, by limiting increases in valuation of all existing real estate to lesser the of five percent or the consumer price index increase. This proposal would also prohibit any increase in valuation of existing real estate owned by persons over 65. Revenue losses to political subdivisions, certified by the State Auditor, would be reimbursed by the state through appropriations. This proposal would have an effective date of January 1, 2003.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

NOT RESPONDING

State Tax Commission
State Auditor's Office
Office of Administration
 Division of Budget and Planning
Department of Revenue



Mickey Wilson, CPA
Acting Director
January 7, 2002